

REPORT OF THE AUDIT OF THE CENTRAL KENTUCKY EDUCATION COOPERATIVE

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary, Finance and Administration Cabinet

Gene Wilhoit, Commissioner, Department of Education

Robert S. Sherman, Director, Legislative Research Commission

Donald Pace, Executive Director, Central Kentucky Education Cooperative

Board of Directors of the Central Kentucky Education Cooperative

The enclosed report prepared by Berger & Company, CPA, PSC, Certified Public Accountants, presents the financial statements of the Central Kentucky Education Cooperative, Lexington, Kentucky, as of June 30, 2003.

We engaged Berger & Company, CPA, PSC to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Berger & Company, CPA, PSC evaluated the Central Kentucky Education Cooperative's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
CENTRAL KENTUCKY
EDUCATION COOPERATIVE**

For the year ended June 30, 2003

Berger & Company, CPA, PSC
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Audit Manager – Todd Berger, CPA
Auditor – Shannon Luther

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CENTRAL KENTUCKY EDUCATION COOPERATIVE
FISCAL YEAR ENDED JUNE 30, 2003
EXECUTIVE SUMMARY

On December 15, 2003 fieldwork was completed on the fiscal year ended June 30, 2003 audit of the Central Kentucky Education Cooperative (CKEC). An unqualified opinion was rendered on the financial statements. Our audit revealed no reportable conditions relating to the federal awards and no comments relating to the financial statements.

Financial Condition:

Fund balance increased by \$2,508 from prior fiscal year, resulting in an increase in cash of \$73,801. Revenues increased by \$16,738 from the prior year and disbursements increased by \$21,026.

Debt Obligations:

At June 30, 2003, CKEC had no debt obligations.

Fund Restrictions:

At June 30, 2003, CKEC had \$39,689 of restricted fund balance for federal funds and \$632 restricted fund balance for sick leave.

Deposits:

CKEC's deposits were not fully insured and collateralized by pledged securities.



INDEPENDENT AUDITORS' REPORT

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gene Wilhoit, Commissioner, Department of Education

Board of Directors, Central Kentucky Education Cooperative

We have audited the accompanying financial statements of Central Kentucky Education Cooperative ("CKEC") as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of CKEC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the property and equipment group of accounts, which should be included to conform with accounting principles generally accepted in the United States of America. The amounts that should be recorded as assets, liabilities, revenues and expenditures from this omitted fund, accounts, and account group are not known. As described in Note 1, the Cooperative's policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Central Kentucky Education Cooperative

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the Central Kentucky Education Cooperative as of June 30, 2003 and the cash receipts and disbursements for the year then ended, on a basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2003 on our consideration of CKEC's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- CKEC Should Require Depository Institutions To Pledge Sufficient Collateral To Protect Deposits And Should Obtain A Written Security Agreement With Each Of Its Banks.
- CKEC Should Require School Districts To Provide More Detailed Documentation When Requesting Payment For Expenditures Made On Behalf Of The IDEA Program.

The accompanying information used as supplementary schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully Submitted,

A handwritten signature in dark ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed –
December 15, 2003

CENTRAL KENTUCKY EDUCATION COOPERATIVE
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

June 30, 2003

ASSETS

Cash (Note 2)	\$ 400,577
Accounts Receivable	14,695
Total Assets	<u>\$ 415,272</u>

LIABILITIES AND FUND BALANCE

Liabilities: Accounts Payable	\$ 53,137
Deferred Revenue	40,582
Fund Balance	
Restricted - Federal Funds	39,689
Restricted - Sick Leave	632
Unrestricted	<u>281,232</u>
Total Fund Balance	321,553
Total Liabilities and Fund Balance	<u>\$ 415,272</u>

The accompanying notes are an integral part of these financial statements.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - MODIFIED CASH BASIS

June 30, 2003

REVENUES

Professional Development	\$ 59,262	
PECS Training	16,200	
Teacher Academy	6,471	
Federal Grants	781,716	
Membership Fees	108,390	
RIAC Grant	5,000	
Administrative Fees	28,219	
Total Revenues	<hr/>	\$ 1,005,258

EXPENDITURES

Professional Development	\$ 57,344	
PECS Training	9,245	
Teacher Academy	5,790	
Special Education	794,284	
Salaries & Related	96,152	
Operating	46,466	
RIAC	4,841	
Total Expenditures	<hr/>	1,014,122
Excess (deficit) of revenues over expenditures		\$ (8,864)

OTHER FINANCING SOURCES (USES)

Interest Income		<hr/> 11,372
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses		\$ 2,508
Fund Balance July 1, 2002		<hr/> 319,045
Fund Balance June 30, 2003		<hr/> <hr/> \$ 321,553

The accompanying notes are an integral part of these financial statements.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The cooperative is a Non-profit Corporation organized to serve the local Boards of Education in the following counties: Anderson, Bourbon, Boyle, Clark, Franklin, Harrison, Jessamine, Marion, Montgomery, Nelson, Nicolas, Scott, Washington, Woodford in addition to the following Independent Schools of Bardstown, Burgin, Danville, Frankfort, Harrodsburg and Paris

B. Fund Accounting

The Cooperative maintains its accounting records in accordance with the principles of “fund accounting.” Fund accounting is a concept developed to meet the needs of governmental and non-profit entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund reflected in a self-balancing group of accounts which stands separated from the activities reported in other funds. The Cooperative has two bank account to which all funds are deposited. A fund balance is maintained for each type of funds received, along with receipts and expenditures for each fund.

C. Basis of Accounting

The records of the Cooperative’s financial statements are maintained on a modified cash basis method of accounting.

D. Inventories

Supplies and materials are charged to expenditures when purchased.

E. Property and Equipment Group of Accounts

The general fixed assets are recorded as expenditures of the fund from which the disbursement is made. The Cooperative does not maintain a record of the cost of its property and equipment, therefore, no group of accounts is maintained. The Cooperative is familiar with GASB 34 and is preparing to initiate it as required.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Cont'd)

F. Total Columns

Total columns on the financial statements are indicated "Memorandum Only," as data in these columns does not present financial position, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Note 2 - Cash and Cash Equivalents

CKEC's cash and cash equivalents consist of amounts deposited in interest-bearing accounts. CKEC considers demand deposits, money market funds and other investments with an original maturity of 90 days or less to be cash equivalents. As of June 30, 2003, the carrying amount of CKEC's deposits was \$400,577 and the banking institutions' balance was \$434,609. The Co-op maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Co-op and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of May 23, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$168,359 of public funds uninsured and unsecured. As of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$234,609 of public funds uninsured and unsecured. In addition, CKEC did not have a written agreement with one of its depository institutions securing CKEC's interest in the collateral.

Note 3 – Retirement Plans

A. Kentucky Teachers' Retirement System

Plan Description – The Kentucky Teachers' Retirement System (KTRS) is an "actuarial reserve, joint contributing" defined benefit public employee retirement system. The plan provides benefit pension plan coverage for local school districts and other public educational agencies within the state. All full-time employees occupying a position requiring certification by the Kentucky Department of Education are covered under the defined benefit plan administered by KTRS. Full-time employees whose job description require a degree and have a four-year college or university are also covered.

The Plan provides for retirement, disability, death, survivor and health benefits of its members. The KTRS annual financial report and other required disclosure information are available by writing the Kentucky Teacher Retirement System, 479 Versailles Road, Frankfort Kentucky 40601-3868; or by calling 800-618-1687.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

Note 3 – Retirement Plans (continued)

A. Kentucky Teachers' Retirement System (continued)

Service retirement – A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met. Special provisions may apply to members who accept a covered position after retirement.

Normal

27 years of covered service, or
Any combination of age plus years of service, which equals 72

Reduced benefits

Age 55 with 5 years of covered service, or
A minimum of 20 years covered service

Funding Status and Progress – The Commonwealth of Kentucky contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of eligible KTRS members. Therefore, all risks and employer matching costs are not shared by the District but are a liability of the Commonwealth. The authority for employer contributions is defined in Chapter 161, Section 540(1) and Chapter 161, Section 555 of the Kentucky Revised Statutes. The following are the KTRS contribution rates for the year ended June 30, 2003:

<u>Employee Contribution</u>	<u>State of Kentucky</u>
9.855 %	9.855 % plus 3.25 %

B. County Employees Retirement System

The County Employees Retirement System of Kentucky ("System") is a multi-employer public retirement plan created by and operating under Kentucky Law.

The County Employees Retirement System is a defined benefit plan which covers substantially all regular non-certified, full-time employees of each county and school board, and any additional eligible local agencies electing to participate in the System. The Plan provides for retirement, disability and death benefits.

For the year ended June 30, 2003, participating employees contributed 5.00% of creditable compensation to the System. The total payroll of CKEC was \$369,977 and with \$62,728 eligible to participate in the system.

Employer contribution rates are intended to fund the System's normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates are determined by the Board of Trustees of Kentucky Teachers Retirement Systems each biennium. Participating employers

CENTRAL KENTUCKY EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

Note 3 – Retirement Plans (continued)

B. County Employees Retirement System (continued)

contributed 6.41% of members' non-hazardous compensation for the year ended June 30, 2003. The contribution requirement for the year ended June 30, 2003 was \$7,140, which consisted of \$3,977 from the Board and \$3,163 from the Employees.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully-vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefit, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The System does not make separate measurements of assets and benefit obligations for individual employers.

The pension benefit obligation, determined as a part of actuarial valuation, at June 30, 2002 (the most recent date for which audited information is available), for the System as a whole, was \$5,492,646,422. The System's net assets available for benefits on June 30, 2002 (based on a five – year moving average of market value to book value) were \$6,883,298,951, leaving a funded pension benefit obligation of \$1,390,652,529.

Ten-year historical trend information designed to provide information about the System's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's Annual Report for the fiscal year ending June 30, 2002.

Note 4 - Contingencies

CKEC receives funding from state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of money advanced or refuse to reimburse CKEC for its disbursements. The amount of such future refunds and unreimbursed disbursement, if any, is not expected to be significant. Continuation of the consortium's programs is predicated upon the grantors' satisfaction that the funds provided are being sent as intended and the grantors' intent to continue their programs.

Note 5 – Insurance and Related Activities

CKEC is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. CKEC has purchased certain policies which are retrospectively rated, which includes worker's compensation insurance.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
June 30, 2003

Note 6 – Accumulated Unpaid Sick Leave Benefits

Upon retirement from CKEC, an employee will receive from the Cooperative an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, this amount totaled \$1,264 for those employees with 27 or more years of experience. No accrual is recorded in the financial statements due to the contingent nature of this amount. Fifty (50) percent of this amount is a required reserve and is included as a restricted portion of the general fund.

Note 7 – Income Taxes

CKEC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. CKEC files form 990, return of organization exempt from income tax.

Note 8 - Cobra

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put CKEC at risk for a substantial loss (contingency).

CENTRAL KENTUCKY EDUCATION COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

Federal Grantor Agency/ Passthrough Grantor/ Program Title	Federal	Pass-Through	
US Department of Education/ Passed Through Kentucky Department of Education	CFDA Number	Grantor's Number	Federal Expenditures
IDEA, Basic Special Education	84.027 *	0581-01-02	78,876
IDEA, Basic Special Education	84.027 *	0581-02-03	<u>702,840</u>
Total Passed Through Kentucky Department of Education			<u>\$ 781,716</u>
Total Direct from US Department of Education and Pass-Through Kentucky Department of Education			<u><u>\$ 781,716</u></u>

* Major Program as defined by OMB Circular A-133

See accountant's report.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
Summary of Auditor's Results
For the Period Ended June 30, 2003

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified that are not considered to be
material weaknesses? X yes _____ none reported

Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness identified? _____ yes X no

Reportable condition(s) identified that are not considered to be
material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance
with section 510(a) of Circular A-133? X yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	IDEA, Part B

Dollar threshold used to distinguish between Type A and B Programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

See accountants' report.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2003

NOTE 1: Basis of Accounting

The schedule of expenditures of federal awards is presented using the cash basis of accounting.

SUPPLEMENTARY SCHEDULE

CENTRAL KENTUCKY EDUCATION COOPERATIVE
BUDGET VS. ACTUAL

June 30, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Professional Development	\$ 75,000	\$ 59,262	\$ (15,738)
PECS Training	-	16,200	16,200
Teacher Academy	-	6,471	6,471
Federal Grants	702,840	781,716	78,876
Membership Fees	108,890	108,390	(500)
RIAC Grant	-	5,000	5,000
Interest Income	8,000	11,372	3,372
Administrative Fees	37,000	28,219	(8,781)
Total Reveunes	<u>\$ 931,730</u>	<u>\$ 1,016,630</u>	<u>\$ 84,900</u>
EXPENDITURES			
Professional Development	\$ 75,000	\$ 57,344	\$ 17,656
PECS Training	-	9,245	(9,245)
Teacher Academy	-	5,790	(5,790)
Special Education	702,840	794,284	(91,444)
Salaries & Related	72,217	96,152	(23,935)
Operating	81,673	46,466	35,207
RIAC	-	4,841	(4,841)
Total Expenditures	<u>\$ 931,730</u>	<u>\$ 1,014,122</u>	<u>\$ (82,392)</u>
Excess of Revenues Over (Under) Expenditires	<u>-</u>	\$ 2,508	<u>\$ 2,508</u>
Fund Balance July 1, 2002		<u>319,045</u>	
Fund Balance June 30, 2003		<u>\$ 321,553</u>	

See accountant's report.

OTHER REPORTS



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Central Kentucky Education Cooperative

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Central Kentucky Education Cooperative (“CKEC”) as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether CKEC’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards.

- CKEC Should Require Depository Institutions To Pledge Sufficient Collateral To Protect Deposits And Should Obtain A Written Security Agreement With Each Of Its Banks.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Central Kentucky Education Cooperative

Internal Control Over Financial Reporting

In planning and performing our audit, we considered CKEC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Members of the Board, management, Kentucky Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Berger & Company CPA PSC".

Berger & Company, CPA, PSC

Audit fieldwork completed -
December 15, 2003



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gene Wilhoit, Commissioner, Department of Education

Board of Directors, Central Kentucky Education Cooperative

Report on Compliance With Requirements Applicable to Each

Major Program and Internal Control Over Compliance in Accordance

With OMB Circular A-133

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Central Kentucky Education Cooperative with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Central Kentucky Education Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Central Kentucky Education Cooperative's management. Our responsibility is to express an opinion on Central Kentucky Education Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CKEC's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Central Kentucky Education Cooperative's compliance with those requirements.

In our opinion Central Kentucky Education Cooperative's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying comments and recommendations.

- CKEC Should Require School Districts To Provide More Detailed Documentation When Requesting Payment For Expenditures Made On Behalf Of The IDEA Program.

Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Central Kentucky Education Cooperative, Inc.
Report on Compliance With Requirements Applicable to Each
Major Program and Internal Control Over Compliance in Accordance
With OMB Circular A-133(Continued)

Internal Control Over Compliance

The management of Central Kentucky Education Cooperative's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Central Kentucky Education Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Members of the Board, management, Kentucky Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in dark ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit Fieldwork Completed -
December 15, 2003

COMMENTS AND RECOMMENDATIONS

CENTRAL KENTUCKY EDUCATION COOPERATIVE
COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2003

STATE LAWS AND REGULATIONS:

CKEC Should Require Depository Institutions To Pledge Sufficient Collateral To Protect Deposits And Should Obtain A Written Security Agreement With Each Of Its Banks.

CKEC maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between CKEC and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of May 23, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$168,359 of public funds uninsured and unsecured. As of June 30, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$210,499 of public funds uninsured and unsecured. In addition, CKEC did not have a written agreement with one of its depository institutions securing CKEC's interest in the collateral.

We recommend that CKEC get a written collateral security agreement with Central Bank and put procedures in place to assure that both Central Bank and Kentucky Bank are pledging assets within the terms of their written agreements.

Management Response: Will Comply

CKEC Should Require School Districts To Provide More Detailed Documentation When Requesting Payment For Expenditures Made On Behalf Of The IDEA Program

During our test of expenditures in the IDEA program, we noted that the cooperative should require school districts to provide more documentation when requesting payments for program expenses incurred by the district. While our testing did not reveal any cost that we considered improper or unallowable, we noted that the invoices being paid to the districts did not include adequate documentation from the district. Many times the invoice paid simply was a general ledger printout from the district's accounting system displaying the specific invoices that were paid by the district. The IDEA program should require the districts to provide more documentation before receiving payment. This will strengthen the program's monitoring of the expenditure of federal monies. We recommend that the program require each district to submit copies of invoices backing up the detail of its general ledger printout before receiving payment from the IDEA program.

Management Response: Will Comply

CENTRAL KENTUCKY EDUCATION COOPERATIVE
COMMENTS AND RECOMMENDATIONS
For The Year Ended June 30, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

